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UNCLAS SECTION 01 OF 02 GUANGZHOU 000216

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SUBJECT: Shenzhen Start-Up Board to Open in August...Probably

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11. (SBU) Summary and Comment: The Shenzhen Stock Exchange's (SSE's) long, long wait to establish a new "NASDAQ-like" start-up board may be nearing an end. The board received final approval from securities regulators in Beijing and could open as soon as August. It will target fast-growth companies; 400 qualified companies are already waiting to list, according to SSE officials. Approval had been held up for fear that it would fail to attract investors and foster growth for viable companies. Officials believe that the start-up board will help with the allocation of credit and attract private equity and venture capital for China's SMEs, sparking a sense of urgency about the opening.

12. (SBU) Reftel reported in early-April 2008 that the new board would likely open in August of that year. However, the warnings from an SSE official at the time that continuing market volatility could delay opening turned out to be well-founded. The approval process for the board has advanced another step, but SSE officials are still not sure how soon it will be up and running. As global economic uncertainty persists, we may yet see more delays for the SSE start-up board. End Summary and Comment.

Final Approval for SSE's NASDAQ

13. (U) On March 31, 2009, the China Securities Regulatory Commission published rules for initial public offerings (IPOs) of SMEs on the Shenzhen Stock Exchange's much delayed start-up board. The rules will become effective May 1, allowing the SSE to begin formally approving firms for listing and the start of trading on the "NASDAQ-like" board as early as August.

14. (SBU) The new board will target fast-growth companies, and officials hope it will help encourage more innovation-based growth in China's economy. Strong records of revenue flows and profit growth will be key requirements for companies wishing to list. Dai Wenhua, SSE Deputy General Manager, told visiting Assistant U.S. Trade Representative for China Timothy Stratford on April 3 that there were already 400 qualified companies waiting to list on the start-up board. Another 3,000 candidates are interested in listing but have not yet demonstrated their qualifications. Dai predicted there

would be many IPOs in the board's opening days - perhaps even several dozen a day - in order to prevent the market from getting "too hot" with too many buyers chasing too few listings.

SME Needs Override Fear of Failure

15. (SBU) SSE has been working on establishing a start-up board for nearly ten years. The board had received preliminary central government approval more than a year ago, but ongoing market volatility further delayed its opening. Dai explained that officials feared the board would fail to attract investors and foster growth for viable companies after seeing the failure of similar boards in other markets. However, the worsening credit environment for SMEs associated with the global financial crisis prodded Beijing to finally give the green light to the new board.

16. (SBU) Dai pointed out that bank preference for large capital-intensive projects has contributed to SME difficulties in obtaining financing. Echoing comments we've heard repeatedly from financial sector contacts, Dai said that banks had lots of capital and were under pressure to lend it. However, because they view large capital-intensive projects as less risky and because local officials strongly support such projects, SMEs are not getting enough access to bank loans. Dai emphasized that more assistance to SMEs should be a priority since they are the most effective engine for job-growth, the top concern of the Chinese government.

Benefits for Private Equity and Venture Capital

GUANGZHOU 00000216 002 OF 002

17. (SBU) The start-up board will also help attract more private equity (PE) and venture capital (VC) investment to China, according to Dai. The start-up board will increase the potential for PE and VC investors to get high returns quickly from their investments when firms launch IPOs. Dai pointed out that private equity companies already control investments worth RMB 200 billion in China. (Note: Media sources have placed the figure at RMB 300-500 billion. End note.) In addition, China has the second highest amount of venture capital investment in the world after the United States, according to Dai.

Starting in August...Probably

18. (SBU) When asked how soon the start-up board would begin trading, Dai predicted with a smile that it would open on one of three dates - August 8, August 18 or August 28 - noting the Chinese belief that eight is an auspicious number. His colleague Jin Liyang, Director of the SSE Secretariat, expressed doubt that the board would be up and running that soon due to the long and complicated approval requirements for individual IPOs; he suggested that September 8, 18 or 28 might be more realistic. The start-up board has cleared a major bureaucratic hurdle, but may yet face further delays before it finally becomes a reality.

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